



ARIZONA STATE RETIREMENT SYSTEM

Financial Horizons

SPRING 2004

Letter from ASRS Director Paul Matson



ASRS Board Member Steven Zeman (center) holds a Certificate of Achievement plaque recently awarded to the ASRS by the Government Finance Officers Association of the United States and Canada in recognition for the ASRS 2003 Comprehensive Annual Financial Report. Also pictured (from left to right) are ASRS staff members Nancy Linssen, Deputy Director for Financial Service; ASRS Director Paul Matson; Anthony Guarino, Chief Operations Officer; and ASRS Comptroller Jan Holt. This was the 15th consecutive year the ASRS has received the prestigious award.

Welcome to our spring edition of Financial Horizons. I am pleased to present in this issue a summary of our 2003 Comprehensive Annual Financial Report, covering last fiscal year, July 1, 2002 through June 30, 2003. After two years of a down investment market, the ASRS fund returned to positive territory, with an overall rate of return of 2.4 percent.

However, even more encouraging is our rate of return for calendar year 2003, which was 24.9 percent. Our total fund now stands at just over \$21 billion after paying out benefits of \$1.2 billion in fiscal 2003.

There has been quite a bit of news lately related to retirement. The status of Social Security and Medicare programs has been debated at the federal level. Some workers are understandably nervous about their future retirement. We at the Arizona State Retirement System want our members to know that their pension plan is safe, and it will be there when you retire. Under the Arizona Constitution, the ASRS fund is available solely for the interests of members and beneficiaries.

In an effort to minimize future increases in contribution rates, and to maximize funds available for future permanent benefit increases, we have been undertaking an agency-wide review of our programs and how we offer them to ensure they are equitable and efficient. Recently, the ASRS approved the charging of interest on Payroll Deduction Agreements. You can read more about that on Page 2.

We have also made a modification to our investment portfolio mix, adding a new asset class of real estate. We believe, and an independent consultant report agreed, that by shifting a small portion of our portfolio to real estate – approximately six percent – we bring a better balance to the overall investment mix strategy.

We are also watching closely our agency budget. You may have noticed that you have not received this newsletter since last summer. We have produced Financial Horizons on a quarterly basis in the past. This year, however, we scaled back to just two editions for the year. That will generate a savings of approximately \$250,000. We hope you do not find this an inconvenience. The last thing we want to do is to fail in providing you with information on your retirement plan. The ASRS recently redesigned our website, which is updated on almost a daily basis with news and information. We produce a Weekly Bulletin of ASRS and retirement-related news, which is available by email and is posted to our website. If you'd like to receive our electronic Weekly Update, please send a note with your email address to michellef@asrs.state.az.us

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ASRS to Charge Interest on Payroll Deduction Agreements on July 1

The Arizona State Retirement System will begin to charge interest on all Payroll Deduction Agreements with a Service Purchase request date made on or after July 1, 2004. An original notice had called for April 1, 2004 implementation; however, at its March 19 meeting, the Board of Trustees moved the date back to July 1 to afford members additional time to prepare for the change.

Payroll Deduction Agreements are contracts that may be set up between a member and their employer for the purpose of making payments toward Service Purchase of previous years worked at another qualified employer plan that can add to a member's pension benefit upon retirement.

Previously, the ASRS allowed payroll deduction payments over a period of time to be made without interest. The ASRS will begin to charge interest on all new Payroll Deduction Agreements with a Service Purchase request date of July 1, 2004 or after. The interest rate is set at 8 percent, the ASRS interest earnings rate. Existing PDAs are not affected.

The Board authorized the interest charge in an effort to ensure non-PDA participants do not absorb the full cost of the PDA program, to minimize future contribution rate increases affecting all ASRS members and employers, and to maximize funds available for future permanent benefit increases.

To learn more about Service Purchase and Payroll Deduction Agreements, please see the Service Purchase Fact Sheet on our website, or call our Member Services Division at (602) 240-2000 in metro Phoenix, (520) 239-3100 in metro Tucson, or toll-free at (800) 621-3778.

ASRS Welcomes New Board of Trustee Members

Governor Janet Napolitano has appointed three new Trustees to serve on the ASRS Board. They are:

- > Michael F. Townsend of Flagstaff. Mr. Townsend serves as finance director for Coconino County and will represent political subdivisions.
- > Anne L. Mariucci, of Phoenix. Ms. Mariucci, a co-owner of the Phoenix Mercury, has an extensive background in private business and will represent the public.
- > Jaime Gutierrez of Tucson. Mr. Gutierrez is a former state legislator and serves as Assistant Vice President for Community Relations at the University of Arizona. He will represent educators.

The governor also re-appointed Karl Polen Jr. to a fourth three-year term. Mr. Polen, Executive Vice President of the Pivotal Group in Phoenix, currently serves as Board Chairperson, and represents the public.

Board of Trustee members are appointed to three-year terms by the governor and confirmed by the state Senate. Each Trustee represents a specific segment of the ASRS membership, including state employees, the education community, retirees, political subdivisions and the public at large. The Board meets monthly. Meeting agendas and past meeting minutes may be found on our website at www.asrs.state.az.us.

ASRS Hires Government Relations Officer

The Arizona State Retirement System is pleased to announce the addition of Denisse Gee as its new Government Relations Officer.

Ms. Gee comes to the ASRS from the Arizona State Legislature where she had served as a legislative research analyst for the Senate. In her position with the ASRS, Ms. Gee will be responsible for working with the Legislature on retirement-related legislation. Prior to serving at the Arizona Legislature, Ms. Gee served as a legislative and budget analyst for the Hawaii State Legislature.

ASRS Calendar

The Member Services Division of the ASRS conducts educational meetings that are available to all members. Reservations are required and can be made by calling our offices at (602) 240-2000 in Phoenix, (520) 239-3100 in Tucson and 1 (800) 621-3778 outside Phoenix and Tucson. **Seminars** are designed for members who are between one and five years from retirement while **Group Meetings** are offered to members who are within one year of retirement.

Group Meetings

May 18, 9 a.m., Phoenix	July 14, 2 p.m., Phoenix
May 19, 2 p.m., Phoenix	July 15, 9 a.m., Tucson
May 22, 9 a.m., Phoenix	July 17, 9 a.m., Phoenix
May 25, 4 p.m., Phoenix	July 20, 4 p.m., Tucson
May 26, 2 p.m., Phoenix	July 20, 4 p.m., Phoenix
May 28, 9 a.m., Phoenix	July 21, 2 p.m., Phoenix
May 28, 9 a.m., Tucson	July 23, 9 a.m., Phoenix
	July 26, 4 p.m., Phoenix
June 2, 2 p.m., Phoenix	July 28, 2 p.m., Phoenix
June 3, 4 p.m., Tucson	July 29, 4 p.m., Tucson
June 4, 9 a.m., Phoenix	July 30, 9 a.m., Phoenix
June 5, 9 a.m., Phoenix	
June 8, 1 p.m., Tucson	August 2, 4 p.m., Phoenix
June 4, 4 p.m., Phoenix	August 3, 1 p.m., Tucson
June 9, 2 p.m., Phoenix	August 4, 2 p.m., Phoenix
June 11, 9 a.m., Phoenix	August 6, 9 a.m., Phoenix
June 14, 4 p.m., Phoenix	August 9, 4 p.m., Tucson
June 15, 9 a.m., Phoenix	August 10, 4 p.m., Phoenix
June 16, 2 p.m., Phoenix	August 11, 2 p.m., Phoenix
June 17, 9 a.m., Tucson	August 13, 9 a.m., Phoenix
June 22, 4 p.m., Tucson	August 16, 4 p.m., Phoenix
June 22, 4 p.m., Phoenix	August 18, 2 p.m., Phoenix
June 25, 9 a.m., Phoenix	August 19, 9 a.m., Tucson
June 28, 4 p.m., Phoenix	August 21, 9 a.m., Phoenix
June 28, 4 p.m., Tucson	August 24, 4 p.m., Phoenix
June 30, 2 p.m., Phoenix	August 25, 2 p.m., Phoenix
	August 27, 9 a.m., Phoenix
July 8, 9 a.m., Tucson	August 27, 9 a.m., Tucson
July 9, 9 a.m., Phoenix	August 30, 4 p.m., Phoenix
July 12, 4 p.m., Phoenix	

Seminars

June 5, 9 a.m., Tucson
June 10, 9 a.m., Phoenix
June 15, 1 p.m., Tucson
June 19, 9 a.m., Phoenix
June 24, 9 a.m., Phoenix
June 24, 1 p.m., Tucson
July 8, 9 a.m., Phoenix
July 10, 9 a.m., Tucson
July 21, 1 p.m., Tucson
July 24, 9 a.m., Phoenix
July 29, 9 a.m., Phoenix
July 30, 1 p.m., Tucson
August 12, 9 a.m., Phoenix
August 14, 9 a.m., Tucson
August 19, 9 a.m., Phoenix
August 28, 9 a.m., Phoenix

ASRS Group Meetings and Seminar schedules may also be found on our website at www.asrs.state.az.us Click on "Calendar."

**** Official Notice ****

Military Service Purchase Recalculation

Legislation passed in the last session requires the Arizona State Retirement System to recalculate the cost of military service purchased prior to July 20, 1996 by members – active, retired or deceased – and to provide refunds, plus interest. The refunds are based on the difference in the costs of purchasing service prior to July 20, 1996, and the cost of service purchase after that date.

If you purchased military service prior to July 20, 1996, you may be entitled to a refund. If you have questions or need more information, please call the ASRS Member Services Division at: 602-240-2000 in Phoenix, 520-239-3100 in Tucson, and outside the metro areas at 800-621-3778.

2002-03 Annual Financial Report

Below is a snapshot of the Arizona State Retirement System's membership as of June 30, 2003

TOTAL MEMBERSHIP 397,088

NON-RETIRED MEMBERS

Total Number of Active Members	202,398
Number of State Employees	44,492
Number of Teachers	64,406
Number of Political Subdivision Employees	93,500
Average Age	44.6
Average Years of Service	8.5
Average Annual Salary	\$ 33,998
Total Number of Inactive Members	123,365

RETIRED & LTD MEMBERS (PLAN)

Total Number of Retired Plan Members	64,697
Average Age	70.1
Average Years of Service	18.7
Average Monthly Benefit	\$ 1,401
Total Number of Long-Term Disability Members	4,561

RETIRED MEMBER (SYSTEM)

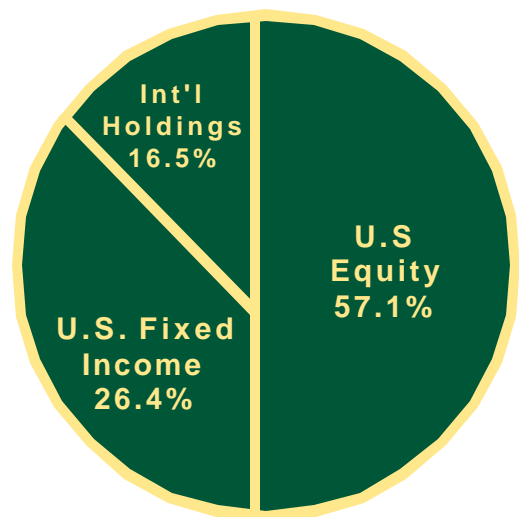
Total Number of Retired System Members	1,709
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Question:

How is my money invested at the ASRS?

Answer:

The pie chart below shows how the ASRS invested your money as of June 30, 2003. The way the funds are allocated plays a significant role in our financial success.

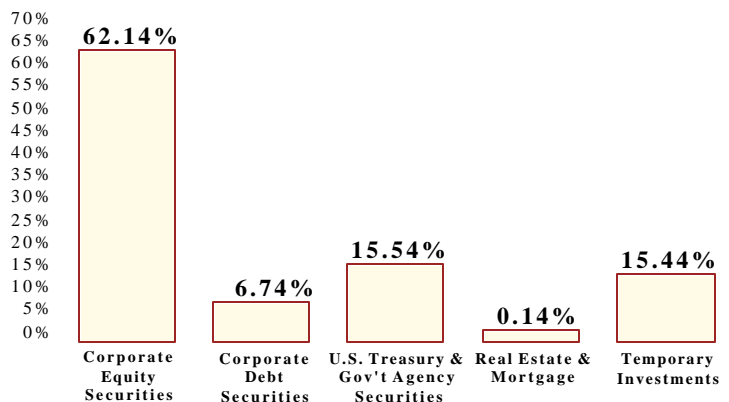


Schedule of Investments

The following shows the fair value of the ASRS ending June 30, 2003, in thousands

	Market Value
Corporate Equity Securities	\$13,405,901
Corporate Debt Securities	\$ 1,454,699
U.S. Treasury & Government Agency Securities	\$ 3,352,902
Real Estate	\$ 30,212
Temporary Investments	\$ 3,329,996
Net Payables on Transactions	\$ (2,928,307)
TOTAL PORTFOLIO	\$18,645,403

Investment Portfolio Components (Including Securities Lending)



Annual Report Summary

Financial Annual Report Summary Schedule of Cash Receipts & Cash Disbursements

CASH BALANCE, beginning of fiscal year	\$13,011,948
CASH BALANCE, end of fiscal year	<u>\$15,099,386</u>
NET INCREASE, cash balance	\$2,087,438

Receipts

Member Contributions	\$178,464,304
Employer Contributions	\$178,464,304
Member Purchase of Service	\$91,567,731
Transfers from Other	
Retirement Systems	\$1,984,281
Short-term Securities Matured & Sold	\$5,430,377,759
Investments Matured & Sold	\$17,365,659,227
Real Estate Sold	\$0
Mortgage Principal Payments & Sales	\$0
Building Revenue	\$6,742,753
Securities Lending Program	\$30,651,097
Interest	\$278,871,837
Dividends	\$157,823,144
Miscellaneous	\$2,813,796

TOTAL RECEIPTS **\$23,723,420,233**

Disbursements

Retirement, Disability & Subsidy Payments	\$1,206,719,998
Death Benefits	\$15,861,343
Refunds to Withdrawing Members	\$35,975,884
Transfers to Other	
Retirement Systems	\$7,465,910
Short-term Investments Purchased	\$5,715,822,457
Investments Purchased	\$16,664,480,591
Securities Program Lending	
Program Charges	\$24,786,285
Investment Manager Fees	\$17,277,708
Building Expenses	\$5,522,753
Administrative Expenses	\$22,818,283
Miscellaneous	\$4,610,582

TOTAL DISBURSEMENTS **\$23,721,332,794**

Statement of Plan Net Assets & Fund Balance - Actuarial Valuation for Fiscal Year 2003

Actuarial Accrued Liabilities

Liabilities due to Members' Benefits

Retirement Benefits	\$ 10,435,386,360
Health Insurance Premium Supplement	\$ 851,386,523
Disability Deferred Retirement Benefits	\$ 207,034,730
Pre-Retirement Death Benefits	\$ 236,526,342
Withdrawal Benefits	\$ 324,951,254
TOTAL ACTIVE MEMBERS	\$ 12,055,285,209

Inactive Members

	\$ 819,702,224
Retired Members and Beneficiaries	\$ 10,017,088,581
Disabled Members (Deferred Retirement)	\$ 328,285,163
Benefit Increases for other-than-plan-participants	\$ 12,589,518
Total Present Value of Benefits	\$ 23,232,950,695

Reserve for "Excess Investment Earnings" Benefit Increase	\$ 1,070,688,752
Total Actuarial Accrued Liability	\$ 24,303,639,447

Actuarial Value of Assets	\$ 23,516,898,511
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Unfunded Actuarial Accrued Liability	\$ 786,740,936
Amortization of Unfunded Actuarial Accrued Liability	\$ 64,941,767
Normal Cost for the Year	\$ 951,116,145
Total Contribution for the Year	\$ 1,016,057,912
Total Covered Payroll (projected to 2003/2004 plan year)	\$ 7,296,827,756

**Required Employee & Employer
Contributions as a Percentage
of Pay for Fiscal Year 2004-2005:**

Employee Portion	5.70%
Employer Portion	5.70%
Total	11.40%

For You

Retired Members

ASRS offers Optional Premium Benefit Program

The Arizona State Retirement System announces a new benefit that allows new retirees the option of providing a continuation of their Health Insurance Premium Benefit to their beneficiary upon their death.

Currently, retirees may choose a reduced monthly pension in exchange for having the pension continue to be provided to their beneficiary after their death. Now, that same benefit option will apply to the Health Insurance Premium Benefit.

The Health Insurance Premium Benefit provides for a monthly payment to retirees who participate in an eligible health care program. The purpose of this benefit is to help offset the high costs of health insurance premiums to retirees. The Health Insurance Premium Benefit ranges from \$75 to \$260 a month, depending upon coverage selected.

The new Optional Premium Benefit Program took effect Jan. 1, 2004 and is available to members who retired on or after that date.

ASRS Issues a Retiree Medical Benefits Program Request for Proposal

The ASRS, in conjunction with Watson Wyatt, the ASRS benefits consultant, is in the process of evaluating proposals submitted by six vendors seeking to provide health care benefits to retirees.

The six vendors that responded to the ASRS Request for Proposal for Retiree Medical Benefits Program were United Healthcare, Humana, Bankers Life and Casualty, Coresource, ScriptSave (the current provider of the ASRS discount drug card), and PacifiCare (the current ASRS retiree health care provider).

The proposals will be reviewed over the coming months, with a new contract expected to be awarded at the June Board of Trustees meeting, for the period beginning Jan. 1, 2005. The ASRS Board of Trustees, its executive management and staff are committed to effectively studying and offering workable solutions to the delivery of appropriate health care options for our retirees and eligible dependents.

This process began back in November 2002, when the ASRS Board appointed a committee to research and analyze the complex issues of retiree health care. This study group conducted public meetings over the course of the next seven months. Members of the study group included an ASRS Trustee, representatives from urban and rural Arizona, employers, retirees, select individuals with critical insight in the delivery of health care, ASRS staff and the benefits consultant. The results of this study were provided to the Health Insurance Board Committee who then refined and refocused this continuing study on the important health care issues of affordability, accessibility, and the provision of appropriate health care plans for our retiree population.

The open enrollment period will still be conducted during October and plan changes, if any, would take effect January 1, 2005. Open enrollment materials will still be delivered in mid- to late-September for retirees and disabled members to study. Should a change in health care providers be decided, information relating to any transition would occur over the summer in anticipation of the normal ASRS open enrollment period. ASRS retirees and other interested parties are encouraged to logon to www.asrs.state.az.us for more timely updates as the RFP process unfolds.

ASRS Mission

The mission of the Arizona State Retirement System is to contribute towards its members' financial security; provide health insurance benefits; and by counseling

- Continued from the cover

Although we are moving toward providing more information electronically, we recognize the need for personal contact. Our Membership Call Center is well staffed to answer your questions, and we have been striving to reduce the time you have to wait for a service representative. Our call wait time has improved from more than five minutes in 2002, to approximately 45 seconds today.

On behalf of our Board of Trustees, and our entire staff here at the Retirement System, I pledge our continued commitment to serving our members and employers in the best manner possible. If you have ideas on ways we can improve, please don't hesitate to contact us. Our contact information is listed on Page 8.

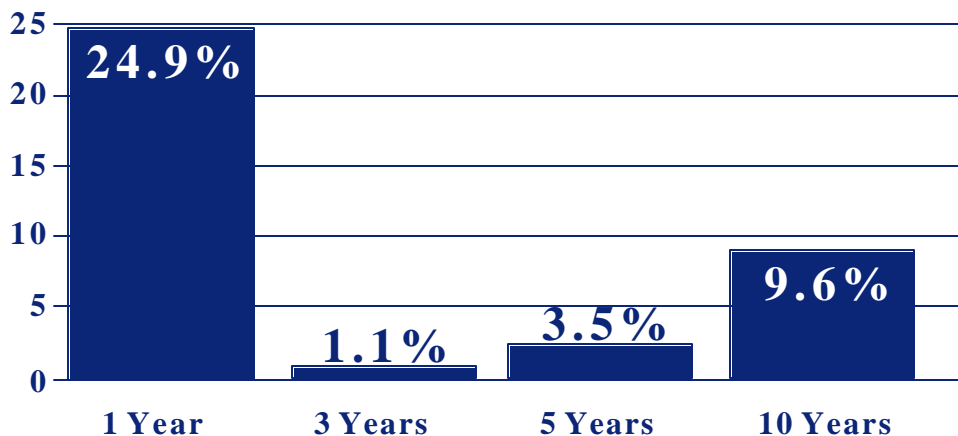
- Paul Matson, Director



Bob Baxter, (left) president of the Arizona State Retirees Association is pictured with ASRS Director Paul Matson and former Arizona Gov. Rose Mofford. Mr. Matson attended a luncheon sponsored by the retirees' association last fall, acknowledging the valuable input retiree organizations have provided to the ASRS over the years.

ASRS Investment Rates of Return

This graph reflects the rates of return for the period ending December 31, 2003.



Statement

ASRS' long-term financial security by providing retirement, disability, survivors' and disseminating information to its members.

ASRS Board

Karl Polen, Chair, Phoenix
Public; term expires 2007

Jim Bruner, Vice-Chair, Scottsdale
Public; term expires 2005

Charlotte Borchert, Chandler
Retirees; term expires 2005

Jaime Gutierrez, Tucson
Educators; term expires 2007

Anne Mariucci, Phoenix
Public; term expires 2007

Dr. Keith Meredith, Tucson
Member at Large; term expires 2006

Michael Townsend, Flagstaff
Political Subdivisions;
term expires 2005

Lawrence Trachtenberg, Scottsdale
Public; term expires 2006

Steven Zeman, Phoenix
State Employees;
term expires 2006

Executive Staff

Paul Matson, Director

Anthony Guarino, Deputy Director,
Chief Operations Officer

Richard Stephenson
Deputy Director, External Affairs

Gary Dokes
Chief Investment Officer

COMMENTS?

The Arizona State Retirement System continues to appreciate your comments and suggestions. We encourage you to write to us with your concerns. Please include your name, telephone number and Social Security number on all correspondence. Thank you for your input.

Send letters to:
Management Support Services
Arizona State Retirement System
P.O. Box 33910
Phoenix, AZ 85067-3910

ASRS *Financial Horizons* is published twice a year for retired and non-retired members of the Arizona State Retirement System. We welcome letters from our readers and encourage you to address your comments to:

Editor
Financial Horizons
P.O. Box 33910
Phoenix, AZ 85067-3910

The ASRS complies with the *Americans with Disabilities Act of 1990*. This newsletter is available in an alternate format upon request. Contact Maurah Harrison, ADA Coordinator, at (602) 240-5312. Information in the newsletter about retirement laws or policies is only a guide. If a conflict arises between information contained in the newsletter and the law, the law takes precedence.

CONTACT US!

ON THE WEB:
www.asrs.state.az.us

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Phoenix, AZ 85067-3910
(602) 240-2000

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7660 East Broadway Boulevard
Tucson, AZ 85710-3776
(520) 239-3100

**OUTSIDE METRO PHOENIX
AND TUCSON:**
Toll Free at (800) 621-3778

Guarding Against Identity Theft

Recently, there has been significant media coverage on the crime of identity theft and its prevalence in Arizona. The ASRS is providing the following information to help you from becoming a victim.

- Guard your Social Security number closely. Don't give your Social Security number to anyone who doesn't have a need to know. If it's on your driver's license, ask the Motor Vehicles Division to substitute it with another number.
- Use a paper shredder. Be sure to shred old bank statements, credit card offers and applications, any personal financial documents, expired credit cards, checks, bills and invoices, charge and debit receipts, and insurance forms when you are finished with them.
- Always mail your bills, checks or anything that might have an account or Social Security number from a secure mailbox.
- Whenever you have visitors or repairmen in your home, don't leave credit cards, checks, checkbooks, charge receipts or financial records where they can be easily viewed or taken.
- If a bill or bank statement doesn't arrive on time, follow up to find out why.
- Order copies of your credit report on an annual basis from all three major credit bureaus. Review them carefully for any unauthorized accounts or loans, especially if you are planning to make a major purchase like a home.

The ASRS takes great care in protecting your personal data, including your Social Security number. Each ASRS employee must sign a confidentiality agreement upon being hired at the ASRS.

To learn more, contact the Arizona Attorney General's Office at (602) 542-5025 or visit their website at www.attorney_general.az.us, or the Federal Trade Commission at 1-877-FTC-HELP or www.ftc.gov.